

SELECT HARVESTS 2012 AGM: Michael Iwaniw Speech

20 November 2012



SELECT HARVESTS

Introduction

Ladies and Gentlemen,

Welcome to the 2012 Annual General Meeting of Select Harvests Limited.

My name is Michael Iwaniw and as your Chairman, I will be conducting today's meeting. Thank you for taking the time to be here today.

The Company Secretary has advised me that a quorum is present in person or by proxy and, accordingly, I declare the meeting open.

In a moment I will deliver my report on behalf of the Board. I will ask Paul Thompson, your Managing Director, to outline how he sees the business moving forward - operationally and strategically. We will then move into the formal business of the meeting.

Before we get onto that please allow me to introduce your Board members.

Accompanying me on stage are Fred Grimwade, Ross Herron and Michael Carroll.

We also have Paul Riordan on stage, who was recently appointed to the Board. Paul has had an extensive career in agribusiness and his experience and expertise will be an invaluable addition. I will ask Paul to formally introduce himself when we get to the Board Resolutions later, but we are extremely pleased to have him here today.

A Board is not a static entity. At Select Harvest we have made a lot of changes in the past year bringing in fresh perspectives and broad expertise in relevant skill sets to the business. Paul's appointment represents the third new Board appointment within that period including Paul Thompson and myself. Board renewal needs to be conducted in a measured way and our Board will continue to evolve to meet the needs of the Company.

I would also like to acknowledge the significant contribution of Curt Leonard and John Bird who both stepped down from the Board this year and from their roles as Chairman and CEO. We thank them both for their contribution to Select Harvests and wish them both well in their future endeavors.

Next to Paul Thompson is our Chief Financial Officer and Company Secretary, Paul Chambers. I would like to welcome Bart Oude-Vrielink from our lawyers Minter Ellison and John O'Donaghue from PricewaterhouseCoopers, our auditors.

I am pleased to present my first annual general meeting as Chairman.

My overwhelming impression is that Select Harvests is a business with great potential and valuable assets in a compelling industry.

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Globally almond demand has grown at a compound annual growth rate of 8% over the last decade and growth looks set to continue. Rapid urbanisation and growing affluence in China and India is driving strong demand from those markets. In developed markets the nutritional benefits of almonds and nuts in general are becoming better understood and demand for almonds, and other nut categories, continues to grow.

The strong growth in demand is coupled with supply constraints due to a lack of recent plantings globally. In Australia, only 34% of plantings are currently at maturity, putting us on track to overtake Spain as the world's second largest almond producer in the near future.

The long lead time to get almond trees to mature production, favorable supply and demand dynamics and the long term growth in almond consumption, bodes well for Select Harvests' maturing orchards and integrated business model. Our 17,151 acres of almond orchards over three states, are excellent assets and there is significant potential to extract even more value from them in future as trees mature.

I would like to acknowledge, however, that the business has been facing a number of significant challenges over the past few years, some of which have been industry wide. These have resulted in disappointing financial performance.

Since my appointment as Chairman a little over a year ago, we have set about addressing these challenges in order to realise the potential of Select Harvests and put us on track to be a leading, internationally competitive, nut business;

- We brought in new leadership with the appointment of Paul Thompson as Managing Director,
- We brought new expertise into our executive team as part of a focus on driving a performance culture across the business. Paul will talk more about this in his presentation,
- We refreshed the membership of the Board to ensure new perspectives and broad based understanding of our industry and business,
- We made good progress in initiatives to strengthen the balance sheet, reduce working capital and costs, and;
- We have begun to implement operational improvements across the business with a focus on driving top quartile performance.

There is nevertheless some way to go, and in the short time Paul Thompson has been with the Company, he has already identified a range of initiatives to improve performance. Paul will discuss these initiatives in more detail, however I can say that moving forward we will be specifically focusing on;

- Utilising our assets to their best advantage,
- Improving orchard management practices, yields and crop quality to optimise profitability,
- Targeting additional processing volumes at our Robinvale facility,

- Further improving the financial performance and increasing the market share of our Food Division,
- Ensuring we have the right people and management structures in place,
- Reducing corporate and operating costs,
- Improving communication with stakeholders

Longer term we will investigate and progress business growth opportunities and do so prudently. We will also look to become more collaborative and work in mutually beneficial partnerships that add value to Select Harvests' assets and enable us to free up capital.

In reviewing the administration of the business, we recognise there is a need to formalise some of our policies and improve our communications around them to shareholders. One area in particular is in relation to our risk policies. As a result we are in the process of reviewing the way we report these and we look forward to presenting the information to you in more detail in next year's annual report.

While it is true to say that some factors affecting the almond industry are outside our control – such as the high Australian dollar and adverse weather impacts - there is nevertheless much that we can control as a business with the right execution. This is why we are 100% focused on implementing the initiatives I have described. Doing so will lead to improved performance and deliver value for our shareholders over the long term.

For example, we believe there are improvements we can make to our horticultural practices to ensure they are best in class and we are confident this will lead to improved yields and crop quality. It is worth noting that increasing volumes and quality, enabling us to command a higher almond price, would go a long way to improving the financial performance of the business.

In summary, I firmly believe there is much we can do as a business to improve our performance and I look forward to updating you on our progress next year.

I would now like to turn to a broader review of the Company's performance this year.

As I have already mentioned, operationally 2012 was a challenging year and the financial performance of the business reflected those challenges. On a reported basis the Company produced a Net Loss After Tax for the year of \$4.5 million. This was after net adjustments of \$22.1 million including non-cash write downs totaling \$24.9 million.

On an underlying basis the performance was better. Underlying NPAT of \$9.5 million compared to \$8.9 million in the prior year. While this was an improvement, the performance of our Almond Division was disappointing with below average yields experienced across the industry, and wet harvest conditions impacting the quality of the almond crop. As I mentioned earlier,

yield and crop quality are key areas of focus for the Company moving forward.

Encouragingly, the Food Division reported a significantly improved performance. Underlying EBIT increased 27% to \$6 million compared to \$4.7 million in financial year 2011 in part reflecting improved operational discipline within the business.

The Board declared a final fully franked dividend of 3 cents per share, resulting in a total dividend for the year of 8 cents per share this year. This reflects the Board's confidence in the business, the profit performance during the year and our intention to balance shareholder returns while retaining sufficient funds to invest in the business.

In our Orchards, we saw the management of 29,500 acres of orchards in Robinvale revert to Olam on the 1st July 2012 as anticipated. This process was well executed by the team. The change will have a part year impact on financial year 2013 earnings as the remainder of the 2012 crop is processed.

I would now like to take a moment to address the write-down of our assets in Western Australia. The Board took the decision to write-down the value of the Western Australian Greenfield development by \$20 million dollars following a review of those assets. This included feasibility costs and land and infrastructure impairment provisions associated with the development.

3,949 acres of orchards have been planted with 22GL of water rights available to support their development. It is worth pointing out that the water rights have no value apportioned to them in our accounts at the current time. While many of the base assumptions for the development remain valid, the project has experienced higher infrastructure and planting costs than initially expected.

I would like to acknowledge that the decision to write-down the value of these assets was disappointing for many of you. We share your disappointment. The Board has commissioned an independent economic review which will look at the costs of developing the WA orchards to full maturity, and explore options including bringing in investor partners.

The Board has also formed a horticultural committee chaired by myself and including Paul Riordan and management. This committee will review and make recommendations on horticultural practices, costs and management structure. It will oversee the WA economic review process, the findings of which are expected early next year.

The Company also incurred a \$4.9 million write down on the former Kyndalyn Park processing facility which is now redundant. The state-of-the-art Carina West processing facility, with 30,000 metric tonnes of annual processing capacity, is well placed to meet future demand.

As I mentioned earlier, the Board has focused on funding and capital management as a priority and we undertook a number of initiatives to strengthen the Company's Balance Sheet. These included scheduled debt

reductions and the continuation of a long-term debt funding agreement with National Australia Bank comprising \$60 million of term debt and a \$35 million working capital facility.

We are also well progressed with a program to realign our asset base and strengthen the Balance Sheet. To this end we announced the sale of 11GL of water entitlements for \$18 million in June. We continue to examine a range of alternatives to optimise our assets.

To conclude my address, I would like to acknowledge that it has been a frustrating few years for our shareholders and many of you are very disappointed at our Company's performance.

I do believe however that the outlook for Select Harvests is positive. Global fundamentals are strong. Volumes are expected to increase as orchards mature.

As an agricultural business there are factors which are outside of our control. But I am confident there is much that we can do, to ensure that Select Harvests is positioned to best advantage to reap the benefits of the positive dynamics and to create shareholder wealth, as and when conditions improve.

I would like to take this opportunity to thank the Board, the management team and staff for their professionalism, hard work and commitment, and to thank you, our shareholders, for your ongoing support. I look forward to updating you on the Company's continued progress in the future.

I will hand you over now to Paul Thompson, our Managing Director.